Callan

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Exxon Valdez Oil Spill Trustee Council

Investment Presentation
October 2013

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Executive Vice President

Presentation Overview

"Now is always the most difficult time to invest!" was the sub-title used last year and is still appropriate in 2013

- Market Overview
  - Domestic Equities
  - Fixed Income
  - International Equity
- Historic Performance & Asset Values
  - Cumulative
  - Calendar Year Periods
  - Asset Class Performance
- Capital Market Background & Projections
  - Projection Process
  - Building Blocks
  - Changes in Projections from 2012
  - Existing Policy with 2013 Long-term Projections
- Other Issues

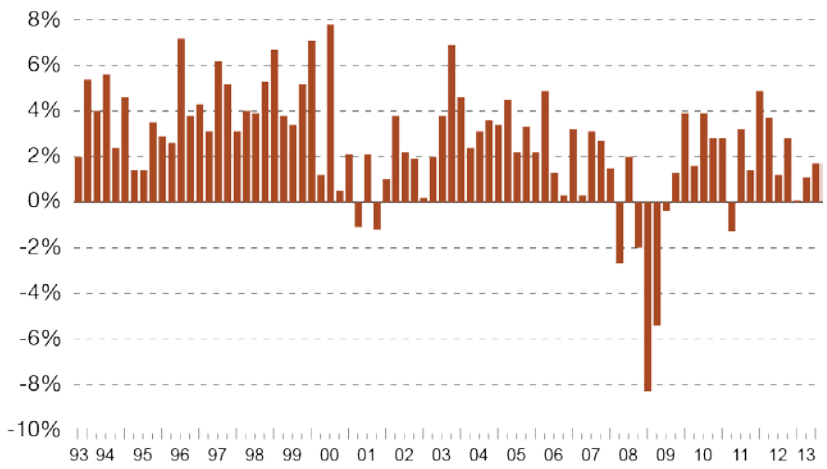
2012 and Early 2013 Overview

- Renewed concern regarding European credit and softness in emerging economies
- Continued real economic growth but initial estimates subsequently reduced
- Concern regarding potential monetary policy tightening and negative “real” interest rates
- Concerns regarding fiscal policy, slow employment growth and modest capital expenditures as fears of slower recovery grow
- Interest rates spike in Q2 2013 raising fears that the secular decline in interest rates has ended
- Mideast turmoil unsettling

Economic Indicators

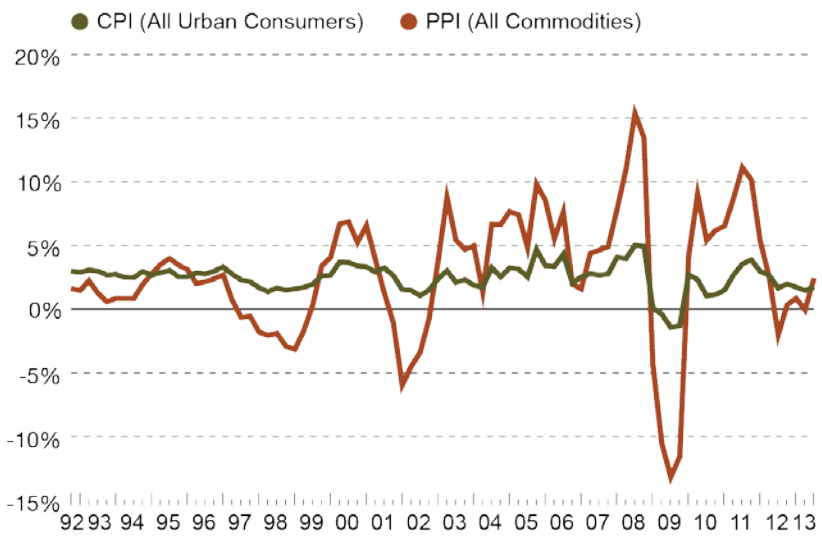
Through June 30, 2013

Quarterly Real GDP Growth* (20 Years)



Source: U.S. Department of Labor

Inflation Year-Over-Year



Source: Bureau of Labor Statistics

Recent Quarterly Indicators

Economic Indicators (seasonally adjusted)	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11
Employment Cost–Total Compensation Growth	1.7%	1.7%	2.0%	1.7%	2.1%	1.7%	2.1%	1.4%
Nonfarm Business–Productivity Growth	1.5%	0.5%	-1.7%	3.1%	1.9%	-0.5%	1.2%	1.8%
GDP Growth*	1.7%	1.1%	0.1%	2.8%	1.2%	3.7%	4.9%	1.4%
Manufacturing Capacity Utilization	75.8%	76.3%	75.7%	75.5%	77.5%	77.6%	76.1%	75.2%
Consumer Sentiment Index (1966=100)	81.7	76.7	79.4	75.0	76.3	75.5	64.7	59.5

*The GDP estimates reflect the results of the comprehensive (or benchmark) revision of the national income and product accounts, according to the Bureau of Economic Analysis (BEA) website. More information on the revision is available at www.bea.gov/national/an1.htm.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Reuters/University of Michigan

Asset Class Performance

Periods Ending June 30, 2013

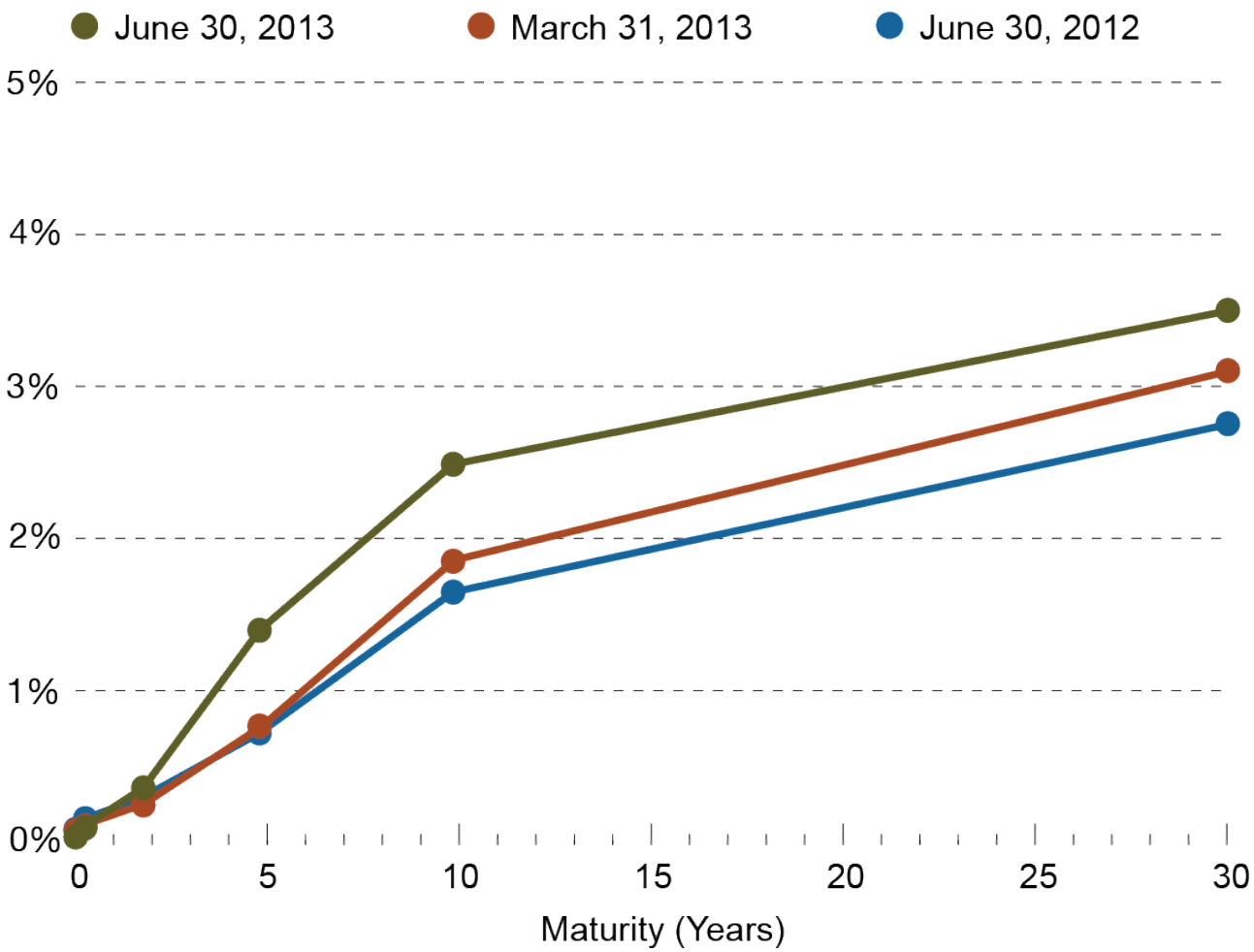
- For Quarter:
  - Domestic stocks on top
  - Emerging Markets worst
- For Year:
  - Domestic stocks best
  - Bonds negative
- Last 3 years:
  - Double digit returns for equities
  - T-bills well below inflation
- Last 10 years:
  - Emerging Markets led
  - Followed by Small Cap
  - Developed Int'l slightly outpaced U.S. Large Cap
  - All asset classes positive

Periodic Table of Investment Returns for Periods Ended June 30, 2013

Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
Russell:2000 Index 3.1%	Russell:2000 Index 24.2%	Russell:2000 Index 18.7%	Russell:2000 Index 8.8%	MSCI:Emer Markets 14.0%
S&P:500 2.9%	S&P:500 20.6%	S&P:500 18.5%	S&P:500 7.0%	Russell:2000 Index 9.5%
3 Month T-Bill 0.0%	MSCI:EAFE US$ 18.6%	MSCI:EAFE US$ 10.0%	Barclays:Aggregate Index 5.2%	MSCI:EAFE US$ 7.7%
MSCI:EAFE US$ (1.0%)	MSCI:Emer Markets 3.2%	MSCI:Emer Markets 3.7%	3 Month T-Bill 0.3%	S&P:500 7.3%
Barclays:Aggregate Index (2.3%)	3 Month T-Bill 0.1%	Barclays:Aggregate Index 3.5%	MSCI:Emer Markets (0.1%)	Barclays:Aggregate Index 4.5%
MSCI:Emer Markets (8.0%)	Barclays:Aggregate Index (0.7%)	3 Month T-Bill 0.1%	MSCI:EAFE US$ (0.6%)	3 Month T-Bill 1.7%

Fixed Income – Treasury Yield Curve

U.S. Treasury Yield Curves



Source: Bloomberg

Recent Asset Values

Portfolio	AUM ($MM) 6/30/2013	AUM ($MM) 12/31/2012
AY02 - Research Fund	96,650,098	91,157,696
AY2H - Habitat Fund	40,747,111	38,509,978
AY2J - Koniag Fund	57,621,256	54,008,031
TOTAL AUM	**195,018,465**	**183,675,705**

- Performance comparisons focus on periods ended 6/30/13
- Historic values and returns were obtained from State Street Global Advisors

Asset Distribution

As of June 30, 2013

Portfolio	AUM ($MM)	AUM (%)
AY02 - Research Fund	**96,650,098**	**100.0%**
AY02 - Russell 3000 Index	47,009,210	48.6%
AY02 - Fixed Income	27,637,434	28.6%
AY02 - International Equity	22,001,688	22.8%
AY02 - Money Market	1,767	0.0%
AY2H - Habitat Fund	**40,747,111**	**100.0%**
AY2H - Russell 3000 Index	19,819,165	48.6%
AY2H - Fixed Income	11,651,935	28.6%
AY2H - International Equity	9,275,766	22.8%
AY2H - Money Market	244	0.0%
AY2J - Koniag Fund	**57,621,256**	**100.0%**
AY2J - Russell 3000 Index	28,024,442	48.6%
AY2J - Fixed Income	16,474,766	28.6%
AY2J - International Equity	13,121,366	22.8%
AY2J - Money Market	681	0.0%
TOTAL AUM	**195,018,465**	**-**

- Each of the 3 sub-funds is well-diversified & close to target

Total Fund Cumulative Peformance versus Target Index

Periods Ending June 30, 2013

Portfolio	Last Quarter	Last 2 Quarters	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Since Inception	Inception Date
AY02 - Research Fund	0.40	6.58	13.96	13.08	6.65	6.00	7.14	5.38	11/01/2000
AY2H - Habitat Fund	0.40	6.58	13.88	13.07	6.51	5.89	7.08	7.55	11/01/2002
AY2J - Koniag Fund	0.40	6.69	14.04	13.15	6.49	5.87	7.05	7.52	11/01/2002
EVOS Target Index	0.36	6.68	13.87	12.29	5.95	5.63	6.98	4.91	11/01/2000
								7.46	11/01/2002

- Calendar 2012 equity market returns were strong; fixed income returns were average. Since then domestic equity markets have rallied, international equities are up modestly and fixed income is negative (especially U.S. TIPS which are down 7.4% through 6/30/13).
- All 3 funds have outpaced their target indices since inception and over the last year.
- While the post “meltdown” returns have been attractive, trailing 5 and since inception returns are still dominated by the 2008-early 2009 bear market.

EVOS Target is: 47.0% Russell 3000 Index, 23.0% MSCI EAFE Index, and 30.0% Barclays Aggregate Bond Index.

Total Fund Cumulative Returns

Returns for Periods Ended June 30, 2013
Group: CAI Endowment / Foundation DB

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 12 Years
10th Percentile	1.18	15.16	12.54	6.27	6.29	8.40	6.89
25th Percentile	0.77	13.73	11.69	5.49	5.73	7.66	6.19
Median	0.34	12.10	10.56	4.50	5.14	7.03	5.53
75th Percentile	(0.59)	10.59	9.58	3.52	4.48	6.40	4.95
90th Percentile	(1.65)	8.81	8.63	2.76	3.84	5.90	4.33
AY02 - Research Total Fund	0.40	13.96	13.08	6.65	6.00	7.14	6.07
AY2H - Habitat Total Fund	0.40	13.88	13.07	6.51	5.89	7.08	--
AY2J - Koniag Total Fund	0.40	14.04	13.15	6.49	5.87	7.05	--
EVOS Target Index	0.36	13.87	12.29	5.95	5.63	6.98	5.65
Russell:3000 Index	2.69	21.46	18.63	7.25	5.84	7.81	4.87
MSCI:EAFE US$	(0.98)	18.62	10.04	(0.63)	1.37	7.67	4.89
Barclays:Aggregate Index	(2.32)	(0.69)	3.51	5.19	5.60	4.52	5.33

- While comparative performance is less important than performance relative to an appropriate policy benchmark, it provides a useful frame of reference for assessment of your policy & its implementation.

Total Fund Calendar Year Returns

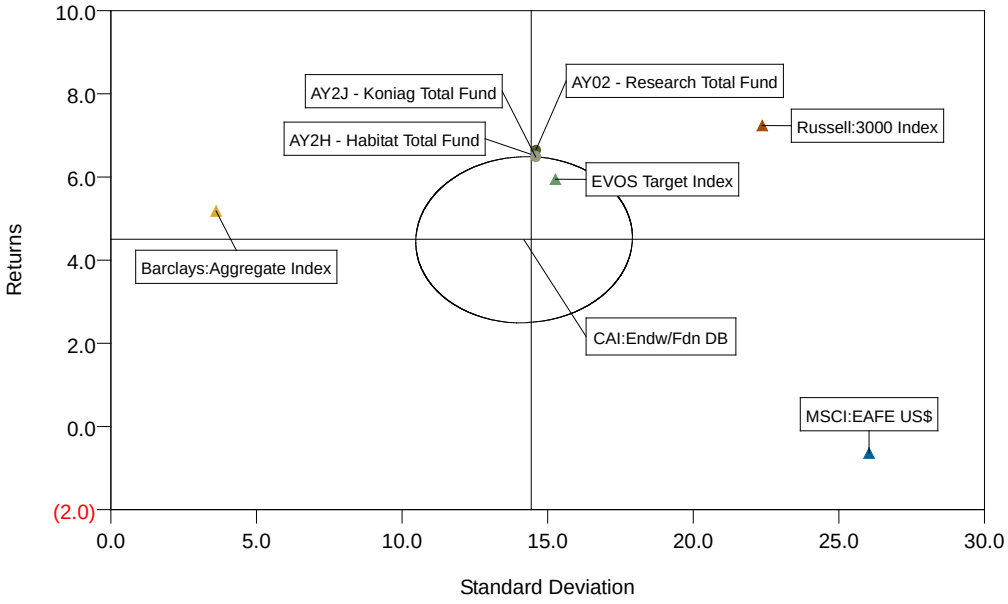
Returns for Calendar Years
12 1/2 Years Ended June 30, 2013
Group: CAI Endowment / Foundation DB

	2 Qtrs. 2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
10th Percentile	7.39	14.62	2.84	14.97	27.31	(19.12)	13.17	16.30	11.01	14.65	28.56	(2.90)	3.65
25th Percentile	6.47	13.45	0.99	13.70	24.50	(22.60)	10.75	14.75	9.00	12.84	25.04	(7.26)	(0.35)
Median	5.05	12.30	(0.41)	12.56	21.20	(26.50)	8.73	13.45	7.49	11.18	22.32	(9.75)	(3.32)
75th Percentile	3.55	11.11	(1.74)	11.19	17.26	(29.07)	7.03	11.99	5.91	9.64	18.97	(12.30)	(6.14)
90th Percentile	2.11	9.44	(3.14)	9.37	11.82	(31.57)	5.54	10.43	4.51	7.70	15.42	(15.83)	(8.66)
AY02 - Research Total Fund	6.58	14.19	1.57	13.06	21.21	(24.24)	6.64	13.05	6.24	9.89	19.74	(7.18)	(2.01)
AY2H - Habitat Total Fund	6.58	14.13	1.58	13.06	21.10	(24.75)	6.74	13.09	6.09	10.15	19.81	--	--
AY2J - Koniag Total Fund	6.69	14.17	1.63	13.10	20.87	(24.91)	6.74	13.13	6.13	10.04	19.75	--	--
EVOS Target Index	6.68	13.08	0.15	12.78	22.12	(25.06)	6.96	13.26	6.29	10.13	20.44	(7.76)	(4.97)
Russell:3000 Index	14.06	16.42	1.03	16.93	28.34	(37.31)	5.14	15.72	6.12	11.95	31.06	(21.54)	(11.46)
MSCI:EAFE US$	4.10	17.32	(12.14)	7.75	31.78	(43.38)	11.17	26.34	13.54	20.25	38.59	(15.94)	(21.44)
Barclays:Aggregate Index	(2.44)	4.21	7.84	6.54	5.93	5.24	6.97	4.33	2.43	4.34	4.10	10.26	8.43

- Calendar period performance demonstrates that the 3 funds have tended to outperform endowment and foundation peers in declining markets while often lagging slightly in strong equity markets.

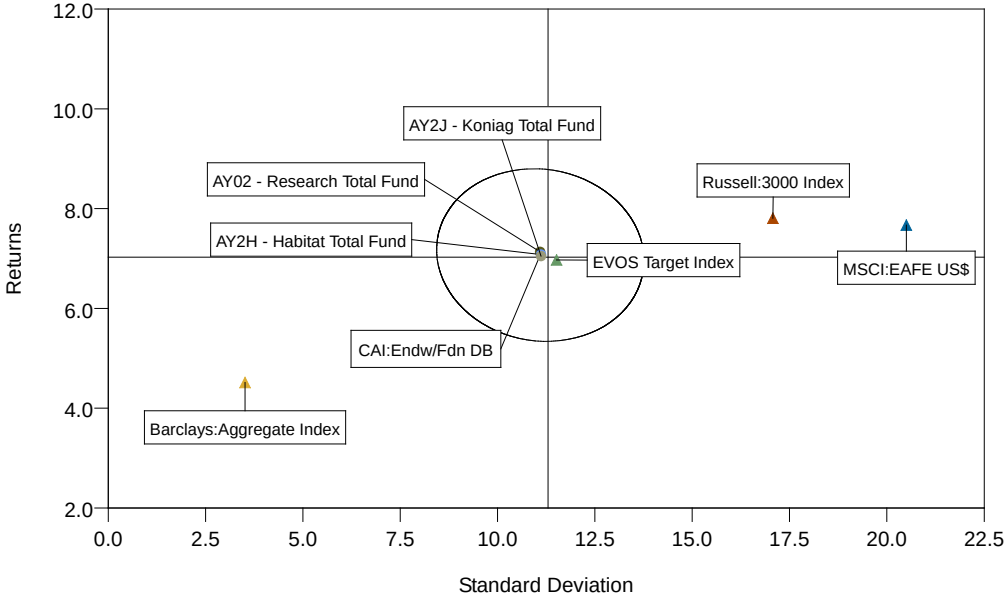
Total Fund Risk and Return

Scatter Chart
for 5 Years Ended June 30, 2013



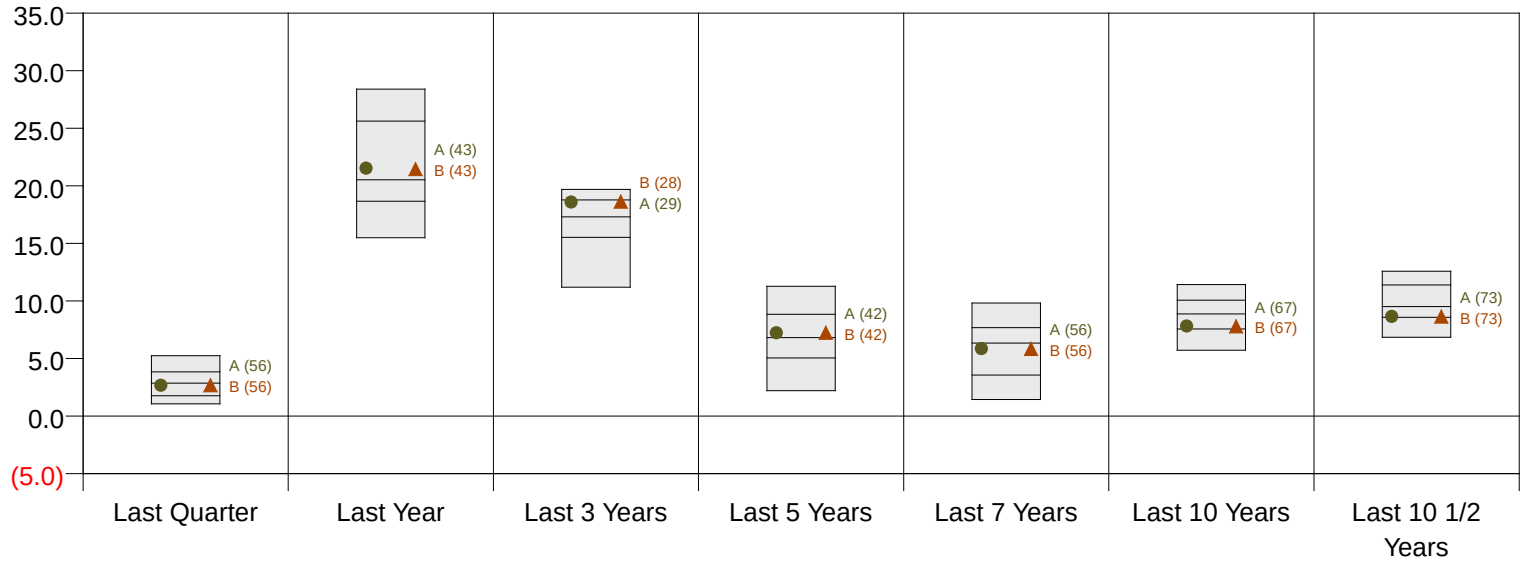
- These graphs examine risk (standard deviation of annualized return) versus return.
- The crosshairs represent the database median return & risk for each period.

Scatter Chart
for 10 Years Ended June 30, 2013



Russell 3000 Index Fund Cumulative Returns

Returns for Periods Ended June 30, 2013
Group: CAI All Cap: Broad

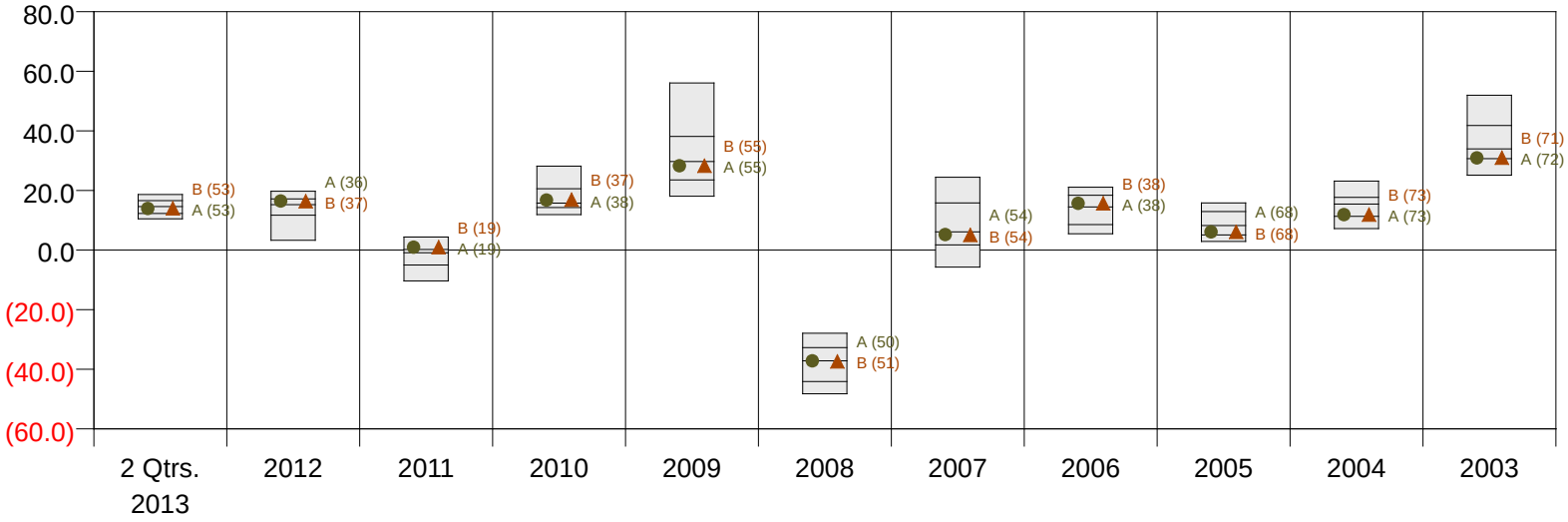


	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 10 1/2 Years
10th Percentile	5.26	28.41	19.69	11.28	9.83	11.43	12.59
25th Percentile	3.85	25.63	18.79	8.85	7.69	10.07	11.39
Median	2.87	20.54	17.32	6.82	6.35	8.87	9.53
75th Percentile	1.78	18.66	15.53	5.05	3.57	7.58	8.58
90th Percentile	1.07	15.50	11.20	2.22	1.44	5.72	6.85
AY02 - Russell 3000 Index ● A	2.69	21.55	18.60	7.25	5.87	7.84	8.67
Russell:3000 Index ▲ B	2.69	21.46	18.63	7.25	5.84	7.81	8.65

- This and the following graphs depict performance by major asset class. Again, the key frame of reference should be the market benchmark.

Russell 3000 Index Fund Calendar Year Returns

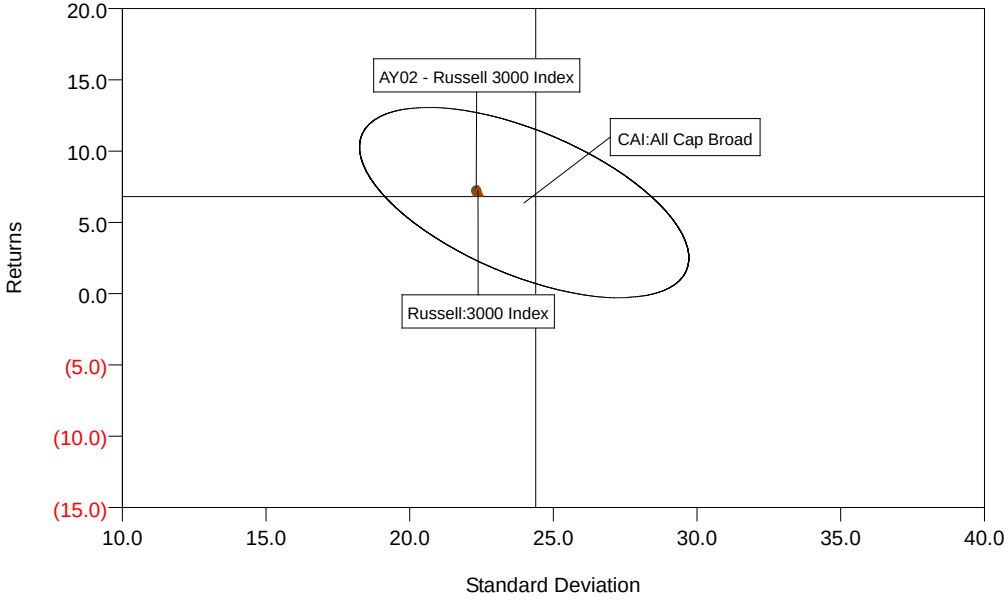
Returns for Calendar Years
10 1/2 Years Ended June 30, 2013
Group: CAI All Cap: Broad



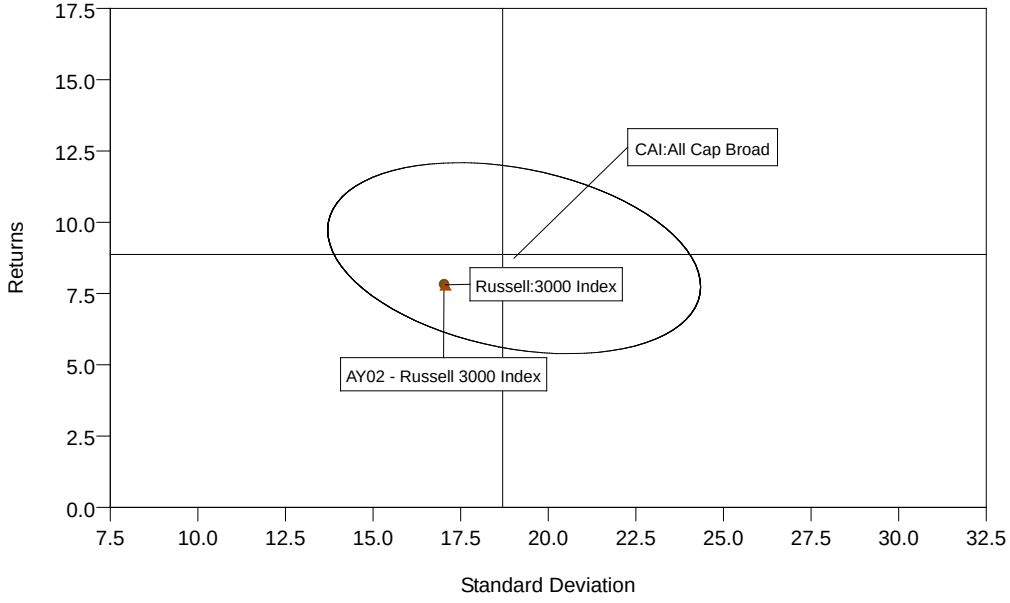
	2 Qtrs. 2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
10th Percentile	18.68	19.80	4.41	28.18	56.09	(27.86)	24.49	21.13	15.88	23.18	51.97
25th Percentile	16.60	17.18	0.22	20.64	38.19	(32.69)	15.87	18.42	12.97	17.73	41.84
Median	14.64	15.26	(0.87)	15.77	29.75	(37.13)	6.12	14.48	8.26	15.46	34.00
75th Percentile	12.31	11.73	(4.98)	14.31	23.57	(44.08)	1.78	8.62	5.14	11.35	30.68
90th Percentile	10.54	3.33	(10.34)	11.91	18.10	(48.17)	(5.67)	5.47	2.91	7.26	25.18
AY02 - Russell 3000 Index ● A	14.00	16.50	1.01	16.80	28.33	(37.17)	5.25	15.71	6.16	11.92	30.98
Russell:3000 Index ▲ B	14.06	16.42	1.03	16.93	28.34	(37.31)	5.14	15.72	6.12	11.95	31.06

Russell 3000 Index Fund Risk and Return

Scatter Chart
for 5 Years Ended June 30, 2013

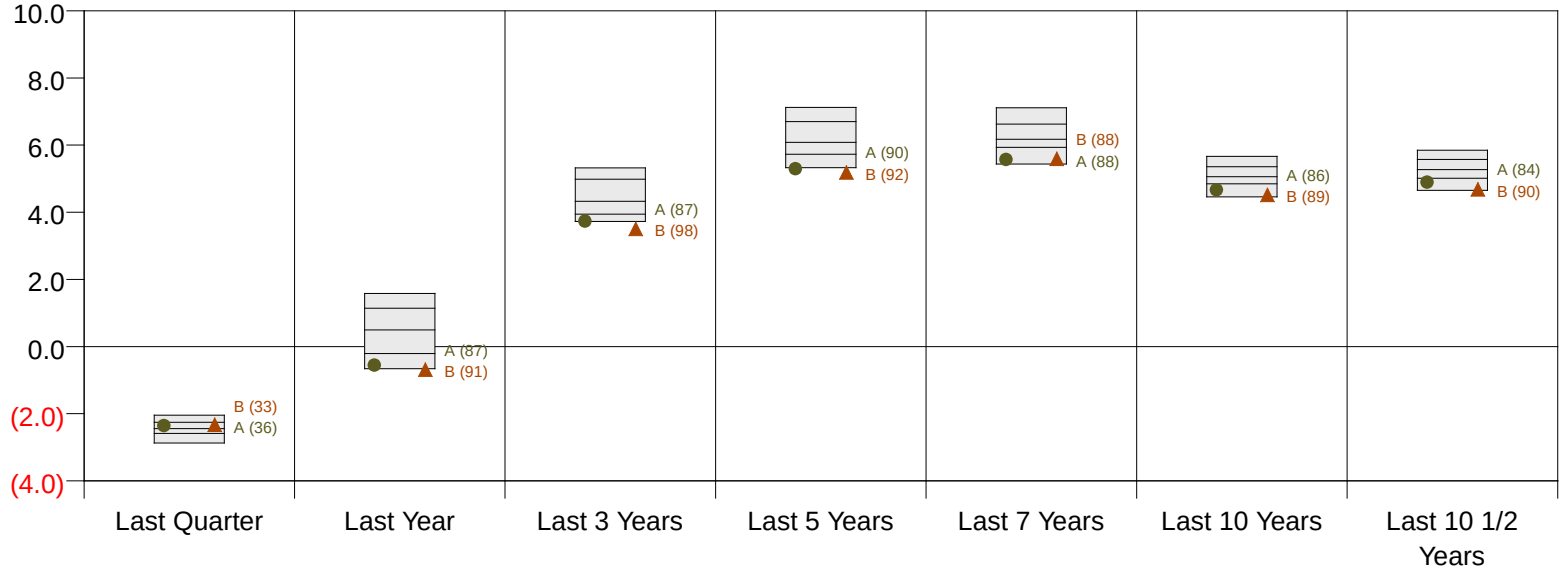


Scatter Chart
for 10 Years Ended June 30, 2013



Fixed Income Fund Cumulative Returns

Returns for Periods Ended June 30, 2013
Group: CAI Core Bond Fixed-Inc Style

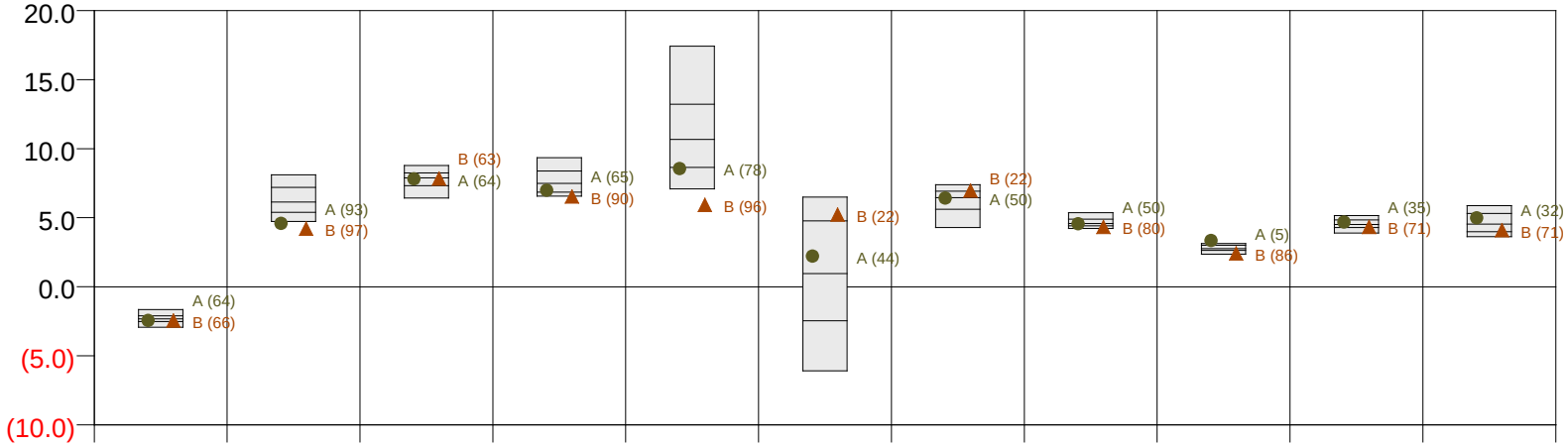


		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 10 1/2 Years
10th Percentile		(2.04)	1.59	5.33	7.12	7.12	5.67	5.85
25th Percentile		(2.25)	1.14	4.98	6.70	6.63	5.36	5.58
Median		(2.44)	0.50	4.33	6.08	6.18	5.06	5.27
75th Percentile		(2.58)	(0.21)	3.95	5.73	5.93	4.85	5.02
90th Percentile		(2.87)	(0.65)	3.73	5.33	5.44	4.66	4.66
AY02 - Fixed Income	● A	(2.35)	(0.55)	3.74	5.30	5.58	4.67	4.90
Barclays:Aggregate Index	▲ B	(2.32)	(0.69)	3.51	5.19	5.60	4.52	4.68

- The comparative universe includes portfolios that employ more aggressive strategies that EVOST. Again the primary objective is to match or exceed the market benchmark.

Fixed Income Fund Calendar Year Returns

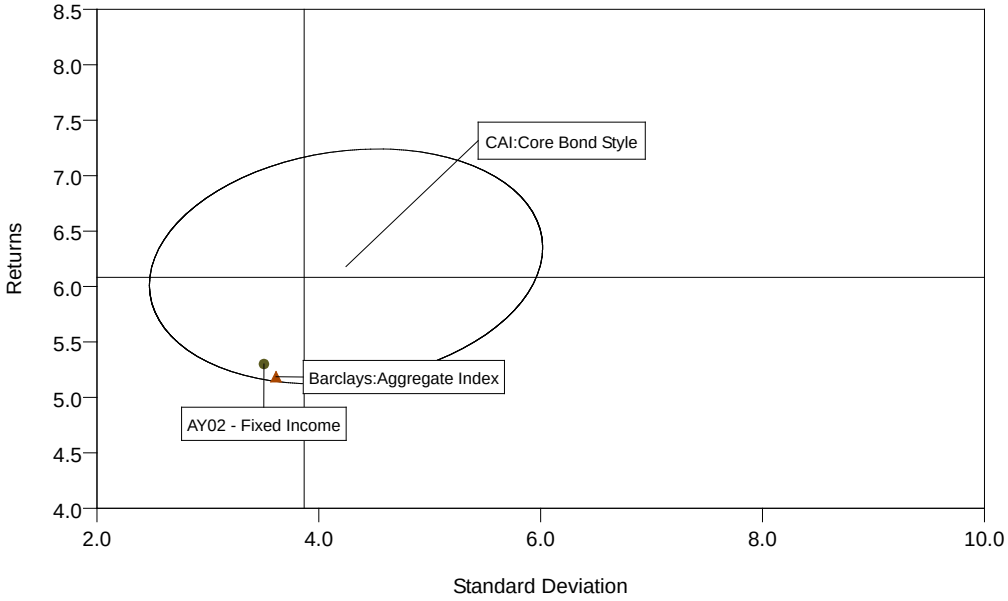
Returns for Calendar Years
10 1/2 Years Ended June 30, 2013
Group: CAI Core Bond Fixed-Inc Style



	2 Qtrs. 2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
10th Percentile	(1.64)	8.11	8.78	9.35	17.43	6.50	7.39	5.38	3.14	5.16	5.88
25th Percentile	(2.10)	7.21	8.25	8.39	13.23	4.78	6.93	4.90	3.02	4.84	5.31
Median	(2.31)	6.15	7.90	7.49	10.67	0.96	6.46	4.58	2.77	4.52	4.55
75th Percentile	(2.51)	5.40	7.32	6.86	8.65	(2.45)	5.61	4.42	2.64	4.30	4.00
90th Percentile	(2.93)	4.74	6.43	6.57	7.10	(6.08)	4.30	4.22	2.37	3.90	3.64
AY02 - Fixed Income ● A	(2.43)	4.60	7.82	7.00	8.56	2.23	6.43	4.58	3.36	4.69	4.99
Barclays:Aggregate Index ▲ B	(2.44)	4.21	7.84	6.54	5.93	5.24	6.97	4.33	2.43	4.34	4.10

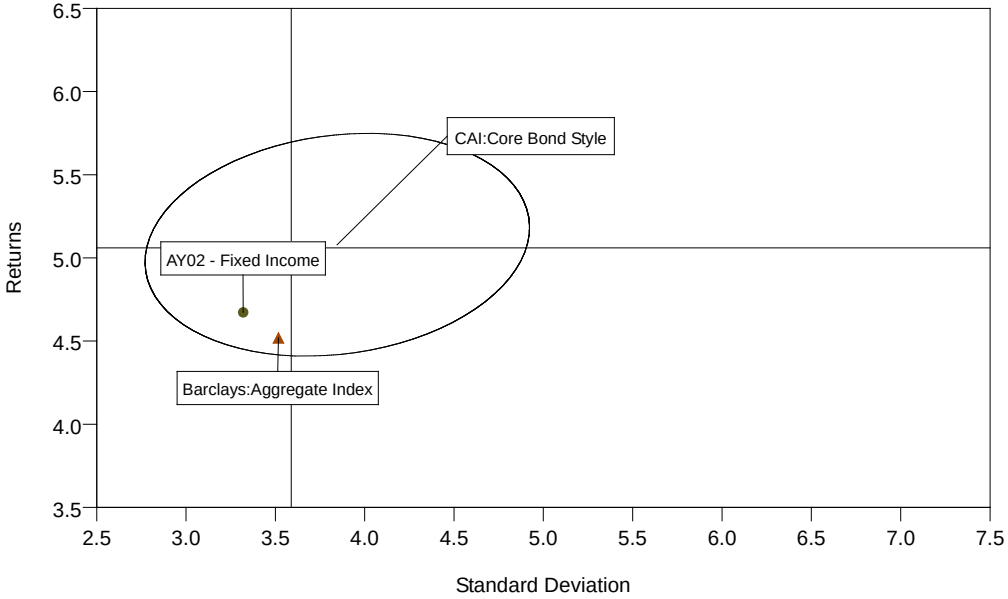
Fixed Income Fund Risk and Return

Scatter Chart
for 5 Years Ended June 30, 2013



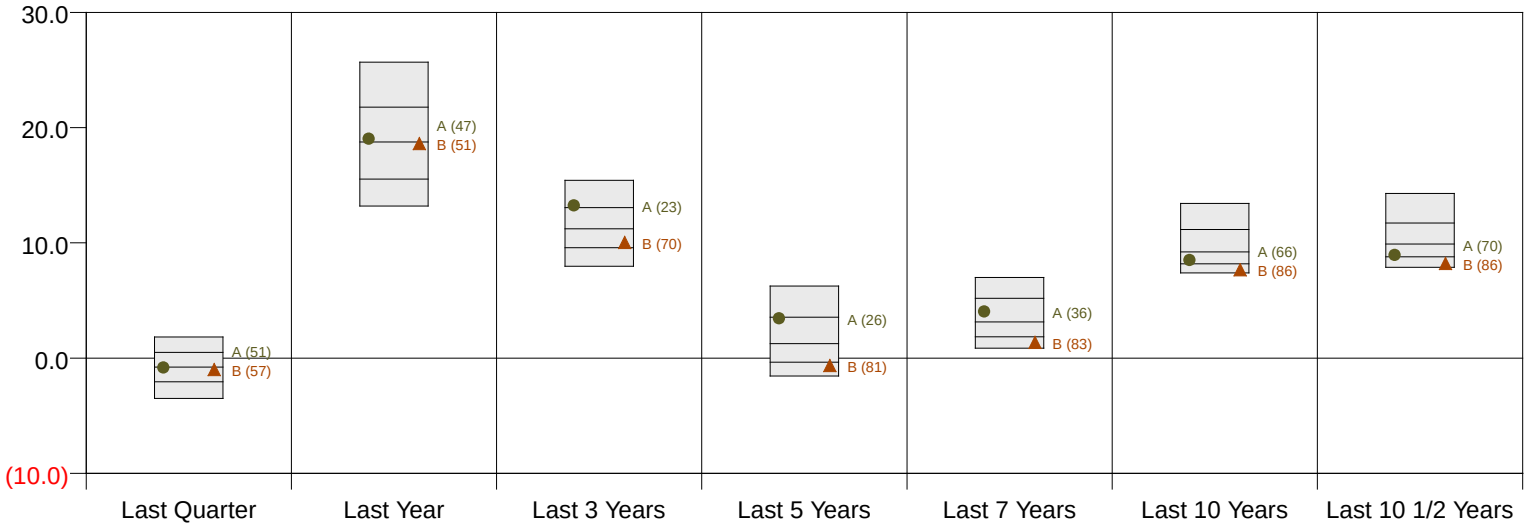
- Graphs demonstrate that your bond portfolios have been less volatile than the typical portfolio and have achieved market-like returns or better returns at slightly less risk.

Scatter Chart
for 10 Years Ended June 30, 2013



International Equity Fund Cumulative Returns

Returns for Periods Ended June 30, 2013
Group: CAI Non-U.S. Equity Database



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years	Last 10 Years	Last 10 1/2 Years
10th Percentile	1.85	25.70	15.44	6.26	7.01	13.43	14.30
25th Percentile	0.51	21.79	13.06	3.55	5.19	11.18	11.74
Median	(0.77)	18.77	11.24	1.26	3.15	9.22	9.90
75th Percentile	(2.04)	15.55	9.59	(0.34)	1.85	8.19	8.80
90th Percentile	(3.49)	13.20	7.98	(1.54)	0.87	7.40	7.89
AY02 - Intl Equity ● A	(0.80)	19.05	13.26	3.46	4.06	8.52	8.96
MSCI:EAFE US$ ▲ B	(0.98)	18.62	10.04	(0.63)	1.37	7.67	8.22

- Your international exposure is achieved through an “actively” managed fund rather than the passive management approach used in the domestic equity asset class. The long-term record includes a period during which the portfolio was passively managed.
- Cumulative returns have been better than benchmark.

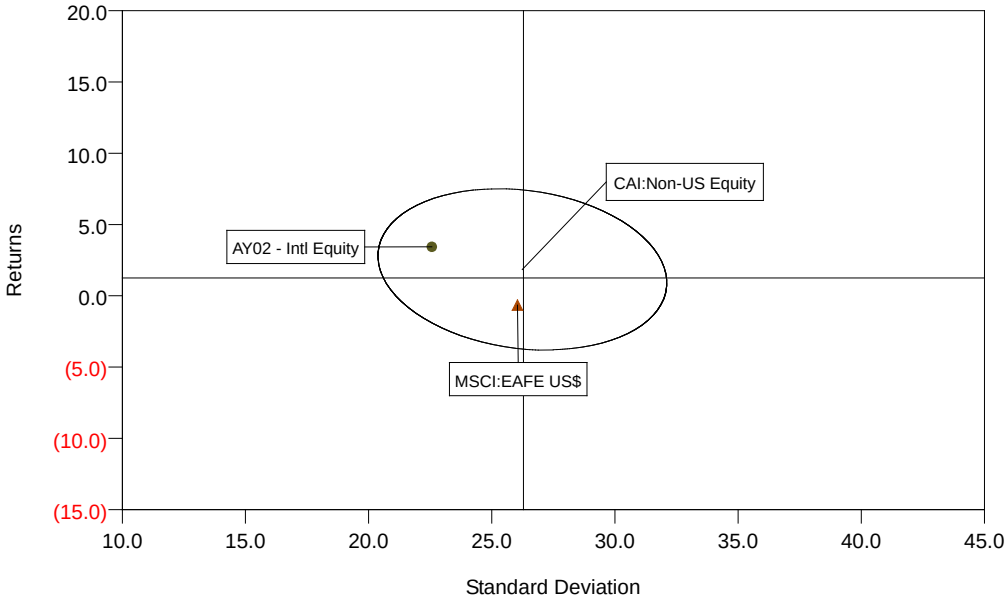
International Equity Fund Calendar Year Returns

Returns for Calendar Years
10 1/2 Years Ended June 30, 2013
Group: CAI Non-U.S. Equity Database

	2 Qtrs. 2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
10th Percentile	9.51	25.37	(6.32)	23.40	56.32	(34.52)	24.40	35.11	27.92	29.57	53.72
25th Percentile	6.68	22.42	(9.81)	17.66	43.18	(40.23)	17.57	31.05	21.22	23.79	44.20
Median	4.37	19.34	(11.99)	12.45	34.63	(43.72)	12.50	26.82	16.14	20.14	38.65
75th Percentile	2.02	16.64	(14.76)	8.56	28.76	(47.41)	8.29	23.58	13.09	16.70	33.91
90th Percentile	(0.20)	13.19	(17.76)	5.84	22.85	(50.44)	2.56	15.72	10.54	12.99	30.62
AY02 - Intl Equity ● A	3.77	21.56	(6.34)	9.29	26.63	(36.39)	12.12	23.53	12.09	16.63	30.79
MSCI:EAFE US$ ▲ B	4.10	17.32	(12.14)	7.75	31.78	(43.38)	11.17	26.34	13.54	20.25	38.59

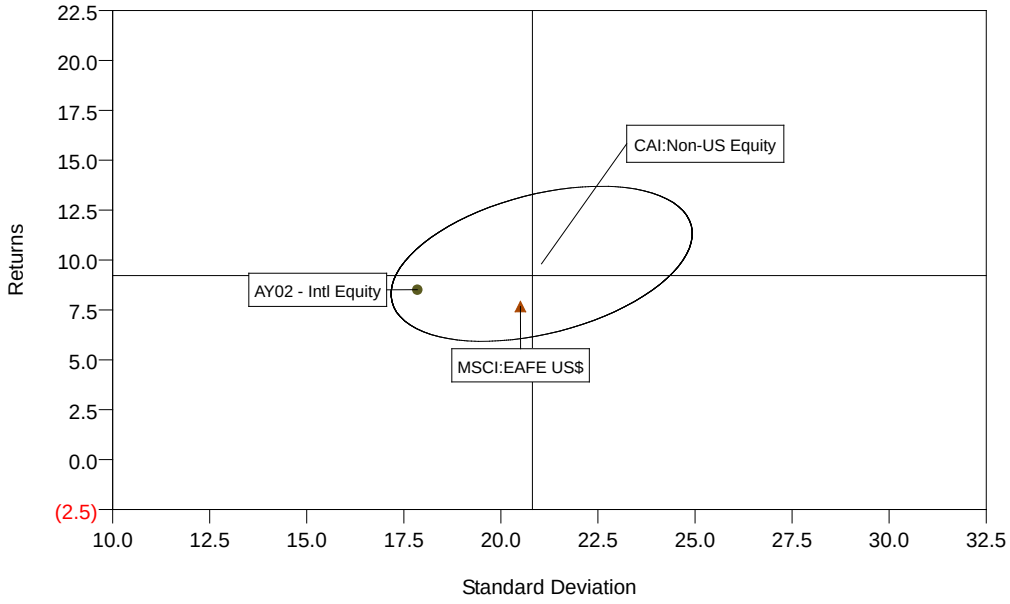
International Equity Fund Risk and Return

Scatter Chart
for 5 Years Ended June 30, 2013



- Performance has been better than "market" at lower than market risk.

Scatter Chart
for 10 Years Ended June 30, 2013



Capital Market Projection Process

Long-term economic outlook drives the process. We focus on 10 year and longer returns and carefully assess the implications associated with the current starting point.

- Evaluate the current environment and economic outlook for the U.S. and other major industrial countries (business cycles, relative growth, inflation, etc.).
- Examine the relationships between the economy and asset class performance patterns.
- Examine both recent and long-run trends in asset class performance.
- Apply market insight:
  - Consultant experience - Plan Sponsor, Manager Search, Specialty
  - Industry consensus
  - Client Policy Review Committee
- Test the projections for reasonable results.

Themes Explored in Setting the 2013 Expectations

- We are in uncharted waters. Where do we go from here?
- What are the prospects for global growth in the short and medium term?
- Has the long term trend for GDP growth changed? What does such a change imply for the capital markets?
- Has inflation disappeared as a risk?
- Bond market surprised yet again in 2012, with rates inching further down. Is THIS finally the end of the road for bonds? Negative real yields persist across wide stretches of the fixed income market. Do rising rates doom the return expectations for fixed income?
- All major asset classes appear to be fully to slightly overvalued. Which is the best of a bad lot?
- Sharp contrast between a long term, strategic vision for an investor (10+ years), the short term (1-3 years) reality, and the path from the current conditions to the long term expectations.

Building Long-term US Equity Expectations

- Dividend Yields Likely to Stay Near Current Levels.
  - Financing uncertainty continues so cash unlikely to be returned to investors.
  - Fixed income yields expected to remain low.
- Equity Valuations Currently Moderate but not inexpensive after another strong advance in 2012.
- Corporate Profits Strong in 2012 but Growth Slowing in 2013.
  - Companies will be pressed to sustain trend in profit growth with a in a weak recovery.
- Company Balance Sheets Are Strong, But No One is Eager to Spend. Large Cash Holdings a Drag on ROE.
- Consumption Still Dominates Economic Growth.
  - Unemployment high but finally declining slightly,
  - Wealth improving as home prices and equity values have been strong,
  - Labor force participation rates low and aggregate personal income growth constrained.
- Have We Entered a New Era of Lower Trend Growth in GDP?

Stock Market Returns by Calendar Year

2012 Performance Perspective – History of the U.S. Stock Market

225 Years of Returns

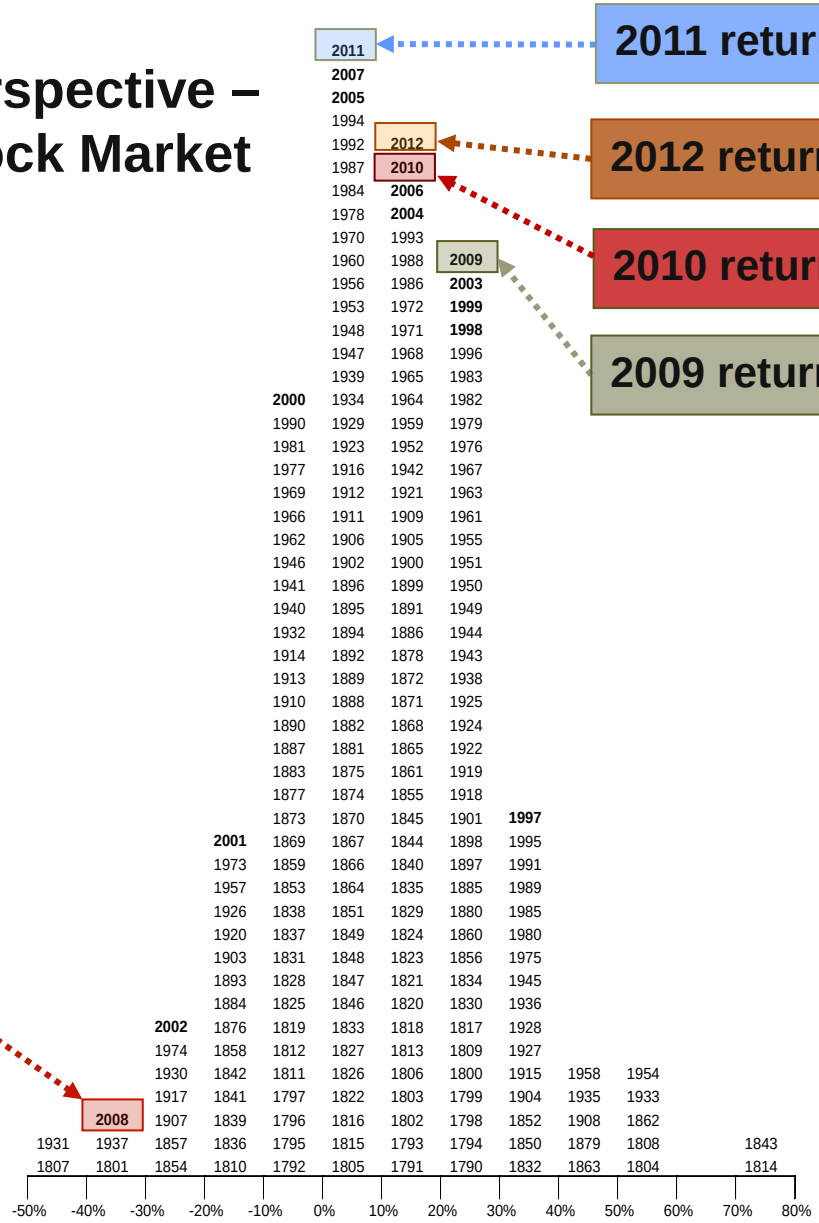
2011 return: +2.1%

2012 return: +16.0%

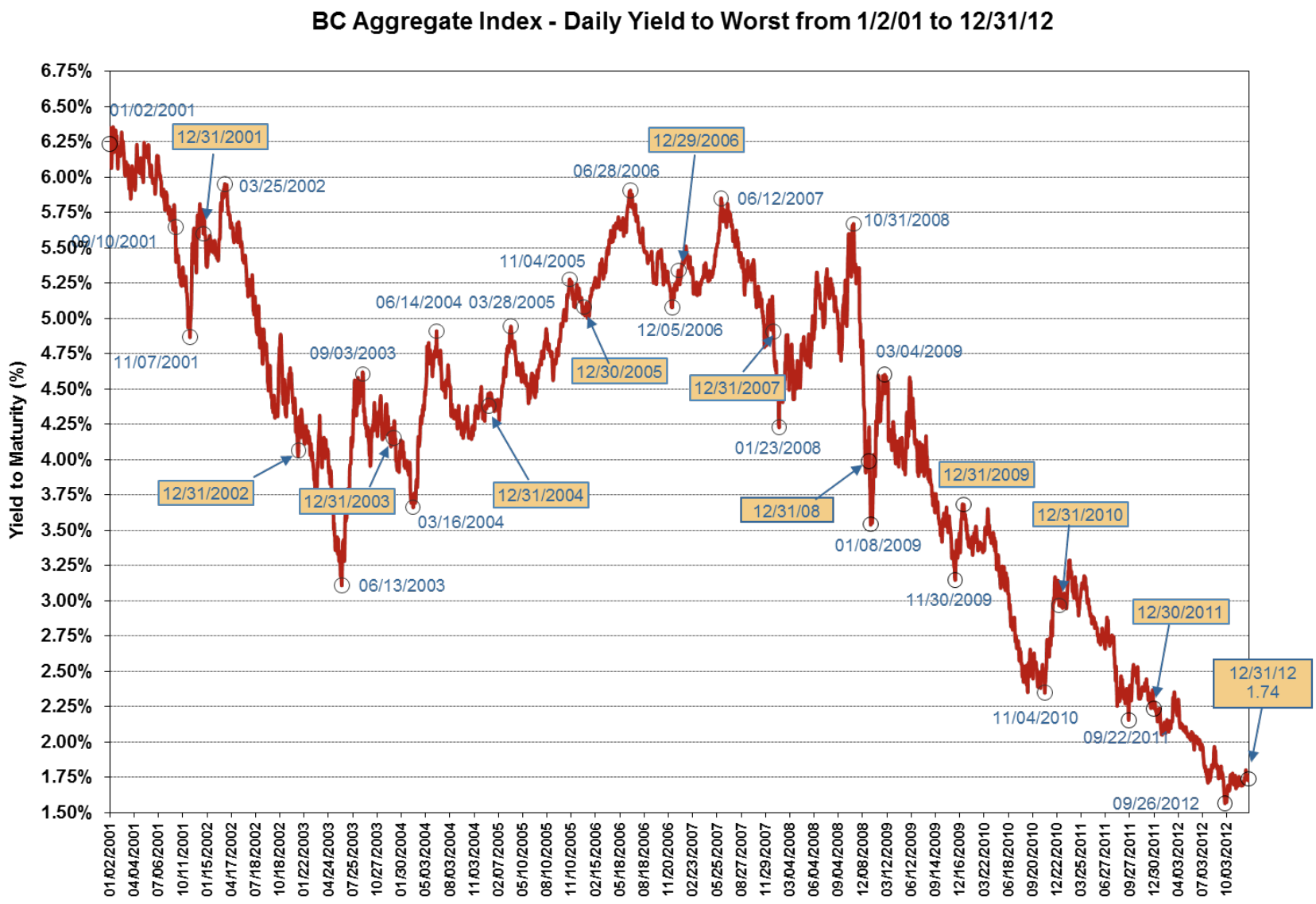
2010 return: +15.1%

2009 return: +26.5%

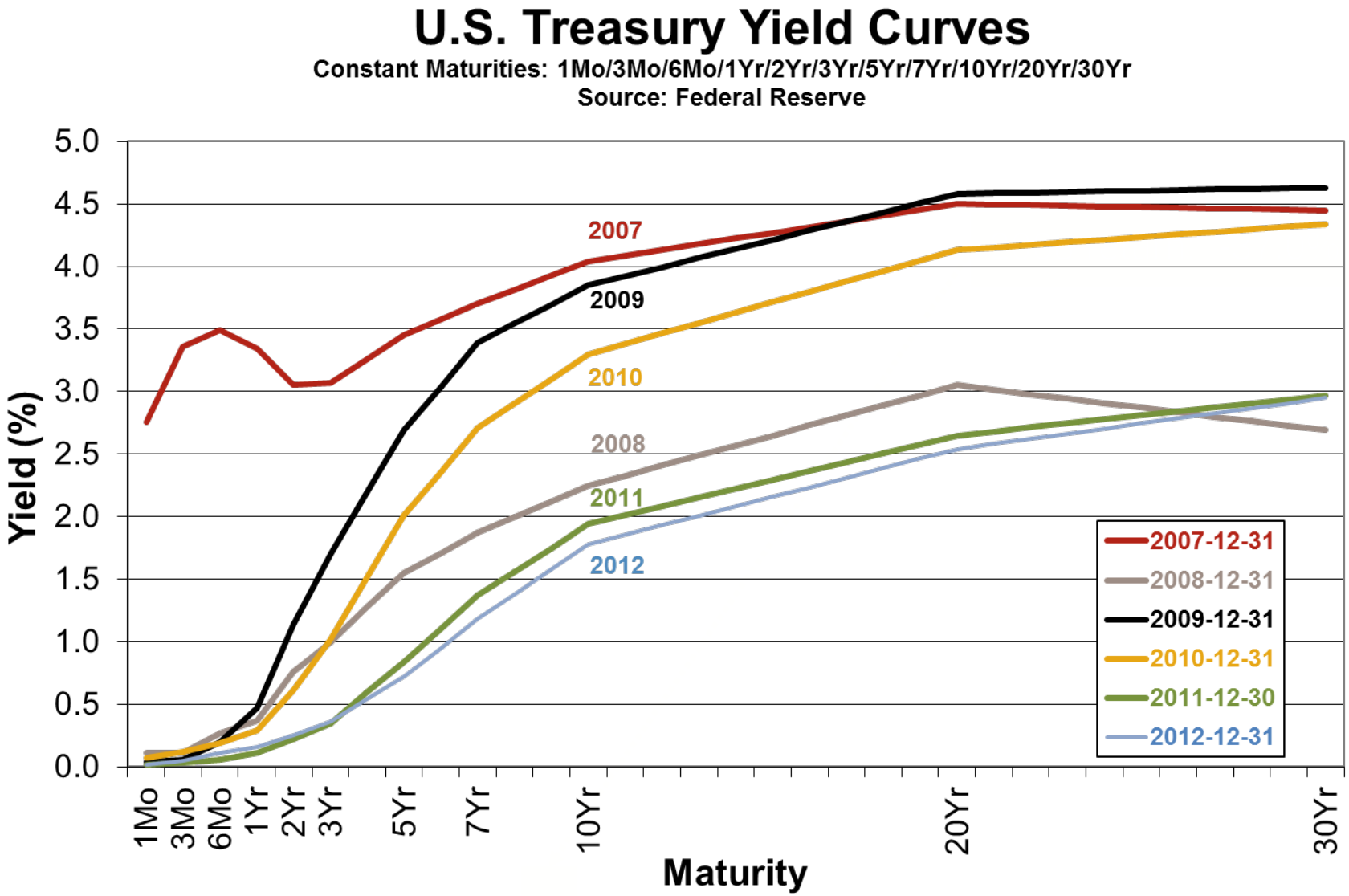
2008 return: -37.0%



Longer term illustration of investment grade bond yields



Yield Curve Illustration



Callan 2013 Capital Market Assumptions

Summary of Callan's Long-Term Capital Market Projections (2013 - 2022)

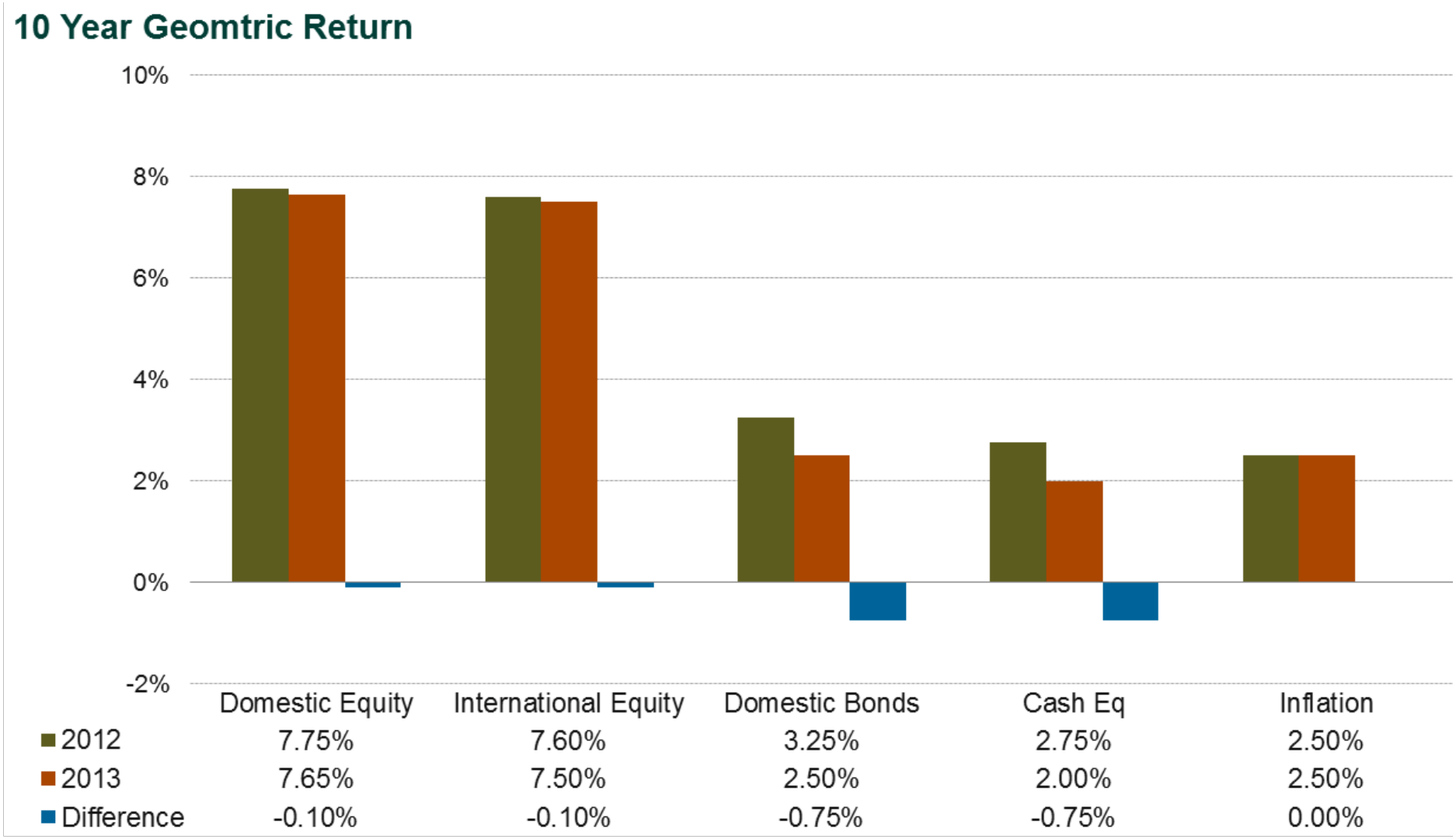
Asset Class	Index	Projected Return*	Projected Risk
Domestic Equity	Russell 3000	7.65%	18.95%
International Equity	MSCI World ex-US	7.50%	20.10%
Domestic Bonds	BC Aggregate	2.50%	3.75%
Cash Equivalents	90-Day T-Bill	2.00%	0.90%
Inflation	CPI-U	2.50%	1.50%

2013 Correlation Matrix

Correlations	Domestic Equity	International Equity	Domestic Bonds	Cash Eq
Domestic Equity	1.000			
International Equity	0.852	1.000		
Domestic Bonds	-0.106	-0.100	1.000	
Cash Equivalents	-0.043	-0.010	0.100	1.000

* These are geometric returns derived from arithmetic returns and the associated risk (standard deviation).

Change in Callan Capital Market Assumptions



	Domestic Equity	International Equity	Domestic Bonds	Cash Eq	Inflation
2012	7.75%	7.60%	3.25%	2.75%	2.50%
2013	7.65%	7.50%	2.50%	2.00%	2.50%
Difference	-0.10%	-0.10%	-0.75%	-0.75%	0.00%

2013 Capital Market Inputs & Resultant "Efficient" Mixes

Last year's return & risk for the current policy were 7.46% and 12.95% respectively

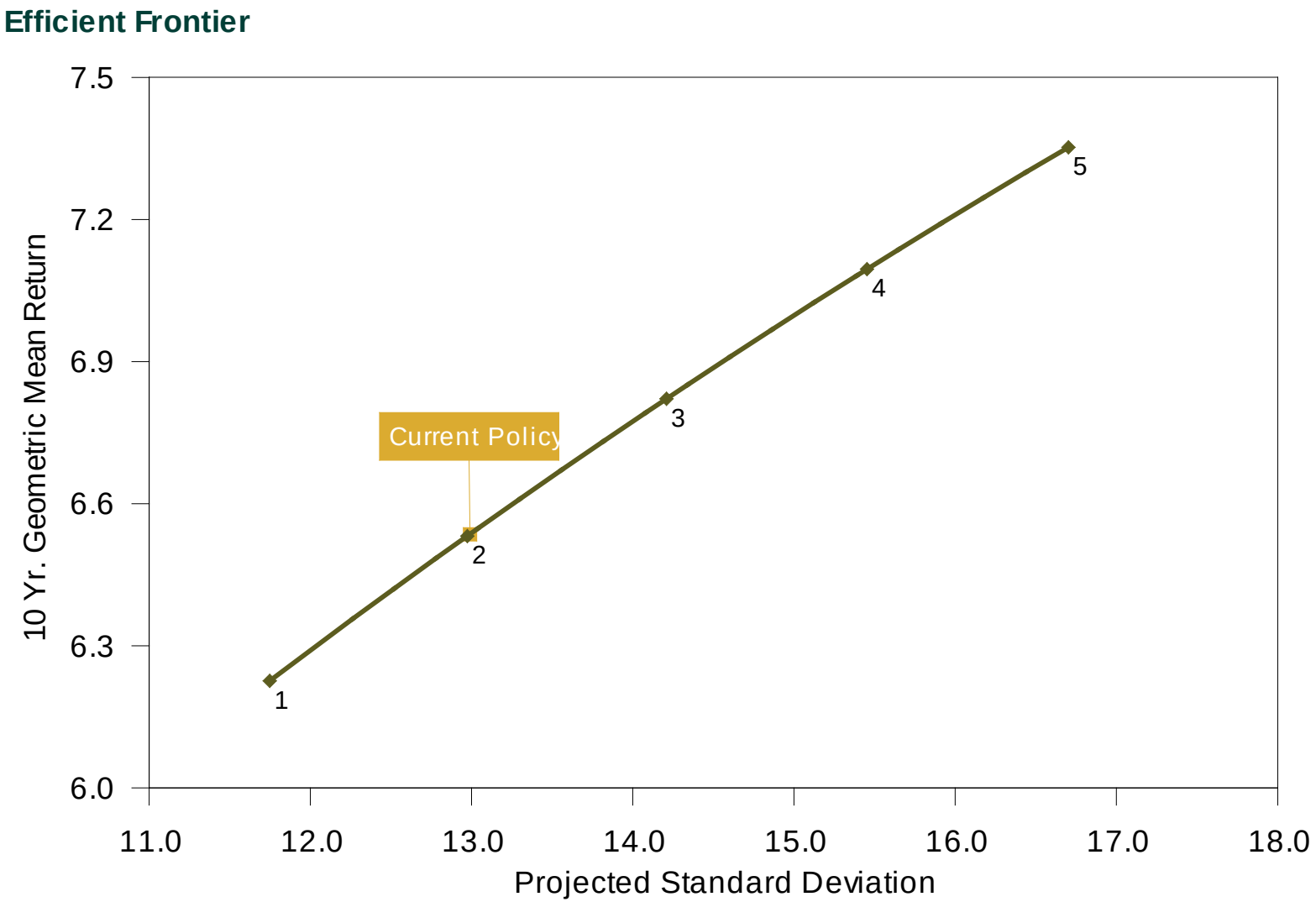
Risk and Return Assumptions

Asset Class	Projected Arithmetic Return	Projected Standard Deviation	5 Yr. Geometric Mean Return	10 Yr. Geometric Mean Return
Broad Domestic Equity	9.15%	18.94%	7.68%	7.63%
International Equity	9.25%	20.10%	7.56%	7.50%
Domestic Fixed	2.55%	3.75%	2.51%	2.51%
Cash Equivalents	2.00%	0.90%	2.01%	2.01%

Asset Mix Alternatives

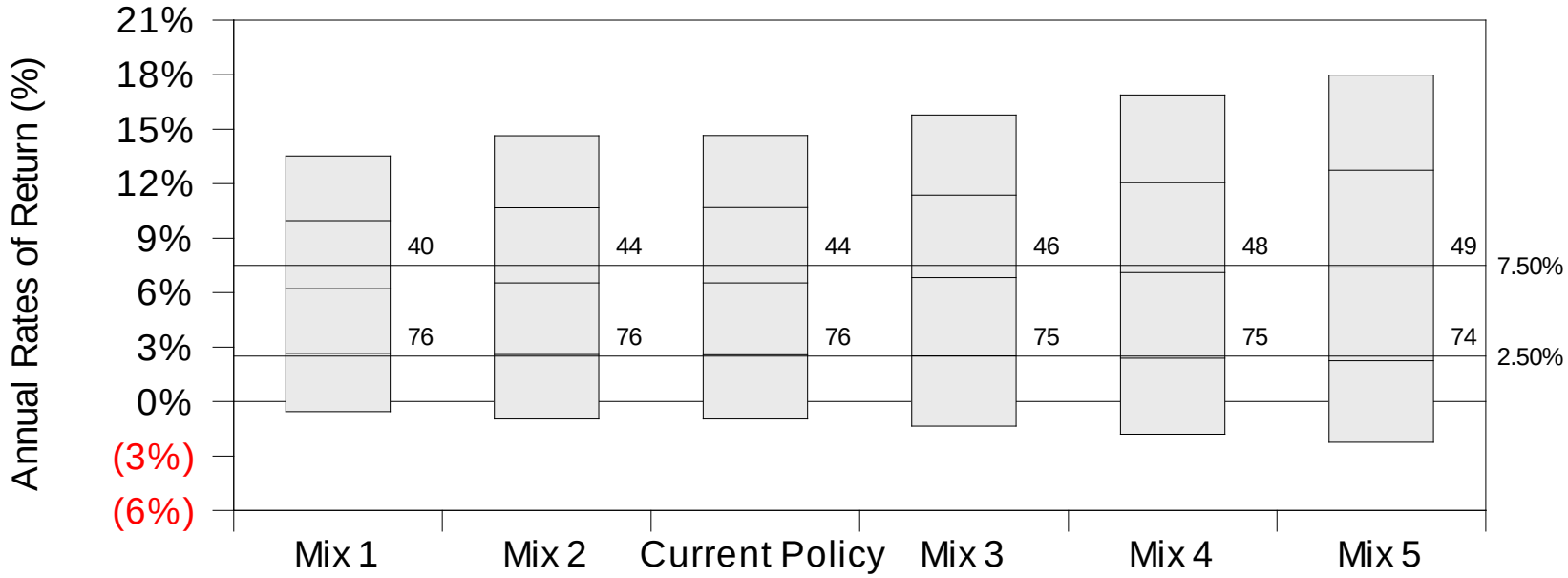
Portfolio Component	Max	Mix 1	Mix 2	Current Policy	Mix 3	Mix 4	Mix 5
Broad Domestic Equity	100	41	46	47	50	54	59
International Equity	100	22	24	23	27	29	31
Domestic Fixed	100	37	30	30	23	17	10
Cash Equivalents	100	0	0	0	0	0	0
Totals		100	100	100	100	100	100
Projected Arithmetic Return		6.75%	7.19%	7.19%	7.63%	8.06%	8.50%
Projected Standard Deviation		11.75%	12.97%	12.99%	14.21%	15.45%	16.70%
5 Yr. Geometric Mean Return		6.24%	6.55%	6.56%	6.85%	7.13%	7.39%
10 Yr. Geometric Mean Return		6.23%	6.53%	6.54%	6.82%	7.10%	7.35%
10 Yr. Simulated Sharpe Ratio		0.36%	0.35%	0.35%	0.34%	0.33%	0.32%

Efficient Frontier



5-Year Range of Returns

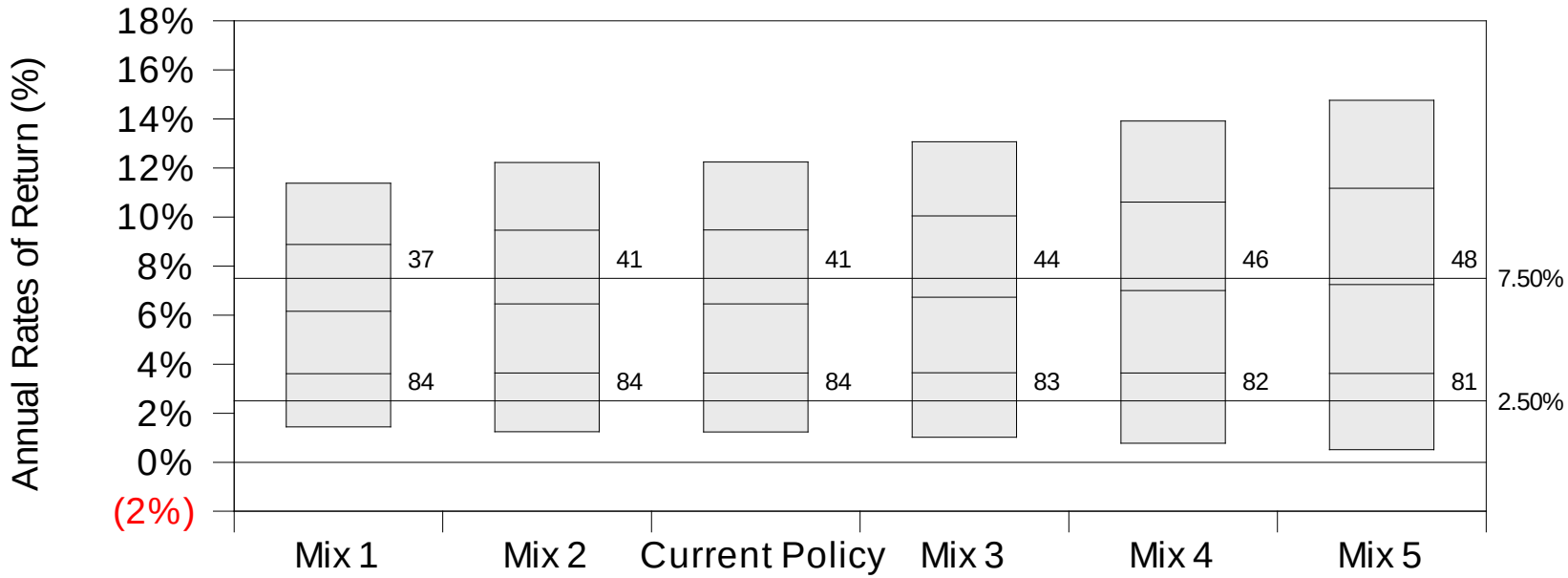
Range of Projected Rates of Return
Projection Period: 5 Years



10th Percentile	13.5%	14.6%	14.7%	15.8%	16.9%	18.0%
25th Percentile	10.0%	10.7%	10.7%	11.4%	12.1%	12.7%
Median	6.2%	6.5%	6.5%	6.8%	7.1%	7.4%
75th Percentile	2.7%	2.6%	2.6%	2.5%	2.4%	2.3%
90th Percentile	(0.6%)	(1.0%)	(1.0%)	(1.4%)	(1.8%)	(2.2%)
Prob > 7.50%	39.8%	43.5%	43.6%	45.6%	47.6%	49.0%
Prob > 2.50%	75.9%	75.5%	75.5%	74.9%	74.5%	73.7%

10-Year Range of Returns

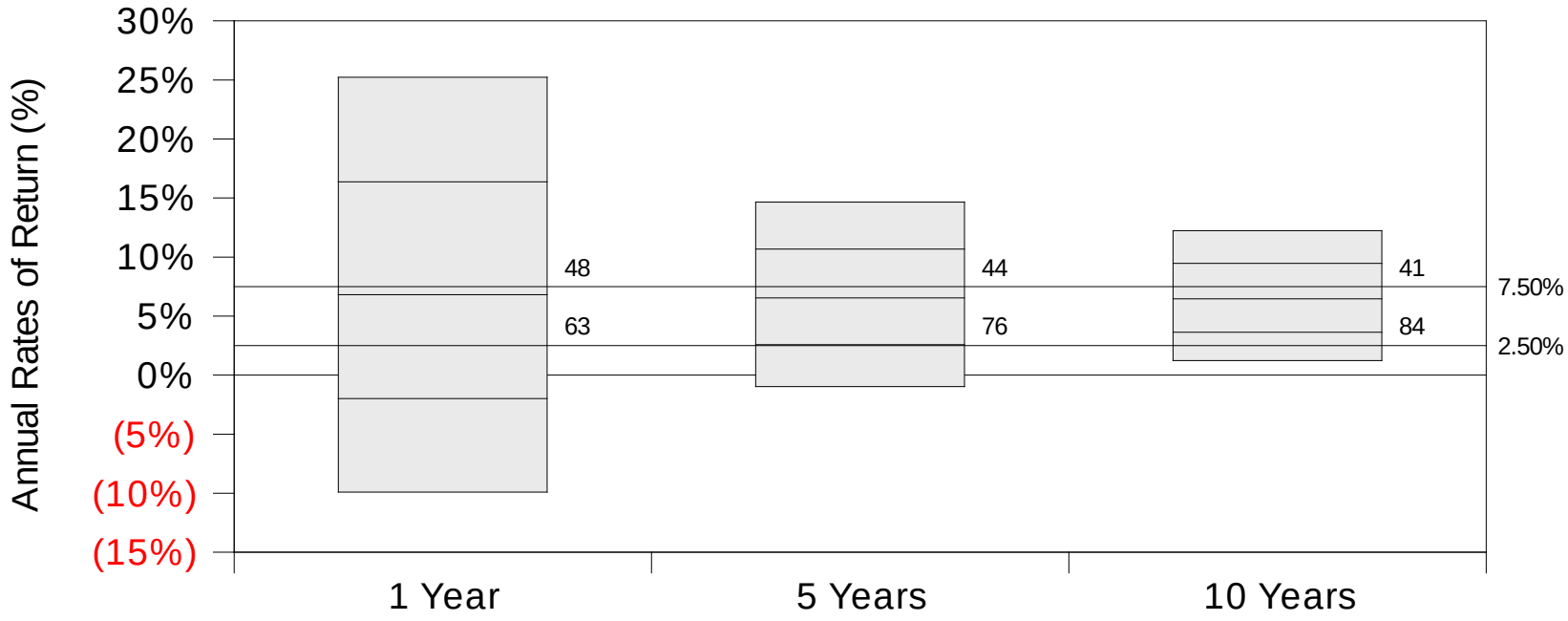
Range of Projected Rates of Return
Projection Period: 10 Years



	Mix 1	Mix 2	Current Policy	Mix 3	Mix 4	Mix 5
10th Percentile	11.4%	12.2%	12.2%	13.1%	13.9%	14.8%
25th Percentile	8.9%	9.5%	9.5%	10.0%	10.6%	11.2%
Median	6.2%	6.5%	6.5%	6.7%	7.0%	7.3%
75th Percentile	3.6%	3.6%	3.6%	3.7%	3.6%	3.6%
90th Percentile	1.4%	1.2%	1.2%	1.0%	0.8%	0.5%
Prob > 7.50%	37.0%	40.9%	40.9%	43.5%	46.0%	48.0%
Prob > 2.50%	84.0%	83.6%	83.6%	82.6%	81.9%	81.1%

Current Policy – Multiple Time Frames

Range of Projected Rates of Return
Current Policy



	1 Year	5 Years	10 Years
10th Percentile	25.2%	14.7%	12.2%
25th Percentile	16.4%	10.7%	9.5%
Median	6.8%	6.5%	6.5%
75th Percentile	(2.0%)	2.6%	3.6%
90th Percentile	(9.9%)	(1.0%)	1.2%
Prob > 7.50%	47.8%	43.6%	40.9%
Prob > 2.50%	63.5%	75.5%	83.6%

Other Items

- Several thoughts on structure & costs
  - Extensive use of low cost investment vehicles: Russell 3000 Index Fund; Revenue Department managed bond and cash funds. Returns are unknown but costs are known and should be minimized. EVOST, in our opinion, has done an excellent job of minimizing controllable costs.
- Callan is not a law firm and never provides legal advice
  - However, it is important to note that at recent interest rate levels, high quality fixed income obligations and short-term investment instruments are expected to provide investors with a negative real return (i.e. the expected return for such instruments is less than the expected rate of inflation and therefore provide a **negative real return)**.
- Diversification remains a critical requirement
  - Total portfolio risk is dominated by equity risk. Equity risk is much greater than bond risk.
  - Increasing the targeted equity allocation would raise expected return but would increase total fund volatility by a large amount.
- Introduction of Treasury Inflation Protected Securities may warrant future consideration
  - As noted last year, this would further diversify the fixed income portfolio.
  - Timing and recent weakness in TIPS may warrant addition to program
  - Callan would be pleased to discuss this matter at an appropriate time.